

## Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

XMB-02 /104 W

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R 291330Z JAN 76

FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC 3736

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY PARIS

C O N F I D E N T I A L ALGIERS 0213

DEPARTMENT PLEASE PASS EXIMBANK FOR MORAN

E.O. 11652: GDS

TAGS: ENRG, AG

SUBJECT: ALGERIAN LNG DEVELOPMENT

1. SUMMARY: ALGERIANS HAVE BEGUN DISCUSSIONS WITH BUILDERS ON CONSTRUCTION OF ARZEW-2 LNG PLANT, AND PLAN \$300 MILLION EURODOLLAR ISSUE IN NEAR FUTURE TO FINANCE PART OF COST. GAS FROM THIS PLANT COULD GO TO EUROPE. END SUMMARY.

2. FOLLOWING DECISION JANUARY 21 TO AWARD CONTRACT FOR COMPLETION OF FIRST MAJOR LNG PLANT AT ARZEW (ARZEW-1), ALGERIANS HAVE MOVED DIRECTLY INTO DISCUSSIONS WITH POSSIBLE CONSTRUCTORS OF ARZEW-2. NUMBER OF REPRESENTATIVES OF INTERNATIONAL CONSTRUCTION COMPANIES ARE IN ALGIERS WEEK OF JAN. 26 FOR DISCUSSIONS REGARDING PLANT, ON WHICH ALGERIANS CONFIDENTLY HOPE TO BEGIN  
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CONSTRUCTION IN 1976. PLANT WILL HAVE CAPACITY OF ABOUT

1 BILLION CUBIC FEET PER DAY AND FOREIGN CURRENCY COST OF CONSTRUCTION IS ESTIMATED AT ABOUT \$800-900 MILLION. BECHTEL, M.W. KELLOGG, PRITCHARD-RHODES, AND TECHNIP (FRANCE) ARE AMONG THOSE FIRMS INTERESTED IN ARZEW-2 CONTRACT.

3. SIXTY-FOUR DOLLAR QUESTION AT THIS POINT IS WHERE GAS PRODUCED BY ARZEW-2 WILL GO. THERE ARE TWO POSSIBILITIES:

A. THE U.S. MARKET - SONATRACH NOW HAS CONTRACTS WITH U.S. FIRMS AMOUNTING TO NEARLY 2 BILLION CUBIC FEET PER DAY FOR DELIVERIES BEGINNING IN 1980 AND 1981.

B. THE EUROPEAN MARKET - SONATRACH HAS RECENTLY SIGNED A LONG-TERM LNG CONTRACT WITH DISTRIGAZ OF BELGIUM FOR 3.5 BILLION CUBIC METERS PER YEAR. ACCORDING FRENCH EMBASSY SOURCE, GAZ DE FRANCE HAS ALSO RECENTLY MADE DECISION TO SEEK ANOTHER LNG CONTRACT WITH ALGERIA PROBABLY FOR 4 BILLION CUBIC METERS PER YEAR. IN ADDITION SARR-FERHNGAS, A GERMAN FIRM, IS NEGOTIATING 3 BILLION CUBIC METERS PER YEAR CONTRACT.

4. THOUGH U.S. CONTRACTS ARE ALREADY SIGNED, FINANCIAL CONSIDERATIONS SUGGEST THAT SONATRACH MAY BE LOOKING TOWARD EUROPE AS MORE LIKELY MARKET FOR ARZEW-2 GAS. TOGETHER WITH SIGNATURE OF LNG CONTRACT, BELGIANS AGREED TO LEND ALGERIA ABOUT \$325 MILLION FOR NECESSARY LNG FACILITIES. GAZ DE FRANCE IS ALSO REPORTED READY TO ARRANGE ABOUT \$200 MILLION IN FINANCING FACILITIES TO SUPPLY GAS FOR ITS LNG CONTRACT. ON OTHER HAND, ALGERIANS APPEAR TO REGARD INTERCONNECTED PROBLEMS OF FPC APPROVAL OF U.S. CONTRACTS AND ADEQUATE FINANCING FROM U.S. AS MUCH LESS OF A SURE THING--AT LEAST FOR SHORT TERM.

5. REGARDLESS OF LNG DESTINATION, SONATRACH IS PROCEEDING WITH ARRANGEMENTS FOR EURODOLLAR LOAN WHICH WILL BE USED TO FINANCE PART OF LNG-2 COSTS. LATEST INFORMATION IS THAT BANK OF AMERICA WILL MANAGE

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EURODOLLAR ISSUE. LOAN LIKELY TO BE FOR \$300 MILLION-- LESS THAN PREVIOUSLY ANTICIPATED BECAUSE OF LOWER RECEPTIVITY OF EURODOLLAR BANKS TO LENDING IN ALGERIA-- AND LIKELY TO BE ISSUED IN ABOUT FOUR WEEKS. LYNE

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